



MOUNTAIN FUEL SUPPLY COMPANY

180 EAST FIRST SOUTH

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STEVEN W. SNARR
MANAGING ATTORNEY

SEP 11 1985
September 11, 1985

Public Service Commission of Utah
Heber M. Wells State Office Building
160 East 300 South
P.O. Box 45585
Salt Lake City, Utah 84110

Attention: Mrs. Georgia B. Peterson

Dear Mrs. Peterson:

Re: Application Regarding Loans to Questar
Case No. 85-057-09

Enclosed is an original and 20 copies of Mountain Fuel Supply Company's application regarding short-term loans Mountain Fuel proposes to make to Questar Corporation. Please see that 20 copies of the application are filed with the Commission.

Also enclosed are 5 copies of a proposed Order submitted for the Commission's consideration in connection with granting summary relief concerning Mountain Fuel's proposal.

An IBM diskette containing the proposed Order is also enclosed for your use. Please return the diskette after an order has been issued.

Thank you for your assistance.

Very truly yours,

SWS/jhy

Enclosures

RECEIVED

SEP 11 1985

APPLICATION OF MOUNTAIN)	
FUEL SUPPLY COMPANY FOR)	Case No.
APPROVAL TO MAKE)	85-057-09
SHORT-TERM LOANS TO)	
ITS PARENT COMPANY,)	VERIFIED
QUESTAR CORPORATION)	APPLICATION

All communications with respect to these documents should be served upon:

Steven W. Snarr
Managing Attorney for
Mountain Fuel Supply Company
180 East First South Street
Salt Lake City, Utah 84139

APPLICATION
AND
EXHIBITS

September 11, 1985

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

APPLICATION OF MOUNTAIN FUEL)
SUPPLY COMPANY FOR APPROVAL)
TO MAKE SHORT-TERM LOANS TO)
ITS PARENT COMPANY, QUESTAR)
CORPORATION)

Case No. 85-057-09

VERIFIED
APPLICATION

VERIFIED APPLICATION

I
INTRODUCTION

Mountain Fuel Supply Company (Mountain Fuel or Company) pursuant to Rule 13 of the Commission's Rules of Practice and Procedure respectfully applies to the Commission for such approval as may be required to make short-term loans to its parent company, Questar Corporation (Questar), under certain limited conditions as set forth below. Such loans would provide Mountain Fuel with an opportunity to earn interest at a rate at least as favorable as the interest rate on existing short-term investments, without any compromise to the security of its financial condition. In support of this request for summary approval, the Company represents as follows:

1. Mountain Fuel is a Utah corporation whose Utah utility operations are regulated by this Commission. A copy of Mountain Fuel's amended Articles of Incorporation are on file with the Commission.

2. Because of concerns expressed by this Commission in Case No. 6369 (order dated February 17, 1972) and Case No. 84-057-10 (order dated October 1, 1984), the Company provided the Commission with a letter dated August 13, 1985, setting forth its intention to make loans to

Questar under certain limiting conditions which would preserve the financial integrity of the utility. (August 13, 1985, Letter attached as Exhibit A.) The Commission provided a copy of the August 13 letter to the Division of Public Utilities (Division), and on September 6, 1985, the Division provided a Memorandum to the Commission recommending that Mountain Fuel make an application to the Commission in order to obtain specific Commission approval for the proposed loans. (September 6, 1985, Memo attached as Exhibit B.)

3. To accommodate the Division's concern and to obtain such Commission approval of the proposed loans as may be lawfully required¹ the Company submits this Application setting forth the specific conditions under which Mountain Fuel would make the proposed loans and outlining the benefits that would enure to the Company.

4. The Company proposes to make short-term loans to Questar under the following specific criteria.

- a. The term of any such loan would not exceed 90 days;
- b. All borrowings would be supported by promissory notes;
- c. No new loans would be advanced by Mountain Fuel if the Company had any short-term borrowings outstanding; and
- d. Interest on such loans would be payable at a per annum rate at least as favorable as Mountain Fuel could otherwise earn on similar investments.

5. Loans by Mountain Fuel to Questar would be classified as investments under certain provisions of the indentures associated with

¹The Company still holds to the view that no Commission approval is necessary for the Company in its management of invested funds in excess of requirements for utility operations, where as here, no impact or issues affecting customer rates are involved.

the outstanding debentures of the Company. The most restrictive indenture provisions currently limit the total investments of Mountain Fuel to \$50 million or 13% of net utility plant. Since Mountain Fuel intends to conduct its affairs in accordance with the indenture provision, loans to Questar would not exceed the greater of \$50 million or 13% of net utility plant. Thirteen percent of net utility plant is currently less than \$50 million.

6. At the present time, Mountain Fuel has funds in excess of its needs for utility operations which are currently being invested in various short-term financial instruments--principally commercial paper. Such investments are made with the goal of obtaining the highest interest rate possible without sacrificing financial security. Use of these funds for loans to Questar as proposed herein would better accomplish this investment goal than existing investment opportunities.

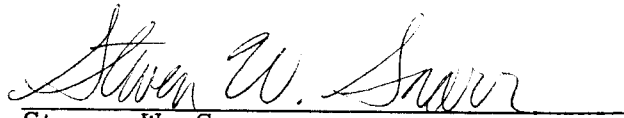
7. As indicated above, Mountain Fuel would not lend money to Questar unless it receives interest at a rate at least as favorable as the interest rate on comparable investments. Questar Corporation currently has a policy for pricing intercompany loans between its affiliated entities (excluding Mountain Fuel) in which a market borrowing rate and a market investment rate are summed together and averaged to calculate an intercompany interest rate. For example, on August 1, 1985, the market borrowing rate for a 30- to 45-day term was quoted at 8.65%. The market investment rate for the same term was quoted at 7.9%. The intercompany interest rate was set at 8.3%. This is a rate approximately 40 basis points higher than the rate at which Mountain Fuel earned interest at that time on short-term investments of this term.

Exhibit C attached, provides a recap of recent lending and borrowing rates available through financial market sources showing the potential for the utility improving its interest earning capacity.

8. The proposed loans would not impact the rates the Company charges its customers for natural gas service. No additional investment risk would be undertaken by Mountain Fuel. Mountain Fuel would generally be able to earn more interest on invested funds than it would be able to obtain through other comparable investment sources, thereby offering additional financial benefit to Mountain Fuel.

WHEREFORE, Mountain Fuel respectfully requests that the Commission approve the Company's proposal to make short-term loans to Questar as more fully set forth above and enter an Order granting tentative approval of Mountain Fuel's proposal to make loans to Questar under the conditions set forth within this Application under the Summary Procedures outlined in Rule 13 of the Commission's Rules of Practice and Procedure, subject to a 20-day period for protest.

Respectfully submitted this 11th day of September, 1985.


Steven W. Snarr
Managing Attorney for
Mountain Fuel Supply Company